

## Quadrant II – Notes

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### Notes :

#### Merchandising:

Merchandise is a broader concept than a product. It include various features with which a product is offered at the store. Merchandising is the process and function of designing and delivering the product to ensure customers satisfaction and meet the objective of profit making to the organization. There are different opinions and definitions on merchandising.

AMA – American Marketing Association has defined merchandising as “Planning involved in marketing right merchandise, at right place at right time in the right quantities at the right price”. E.g. – Amazon(dot)com, promises to deliver around 1 crore products within 24 hours and payment after delivery.

Quicker(dot)com promises to sell anytime for a right price quickly. Similarly Big Bazar Easy day, ‘More’ etc. Make ‘attractive’ offer of wide variety of the product that are categorised and displayed in their store. They are offered with attractive price and other benefits that all can be summarized as merchandising.

Merchandising can be defined as “Planning, Buying, Assorting, Promoting Placing, Setting and Replenishing the Goods”. Goods bought must be sold or replenished the unsold stock will be a burden on finance. So planning need to be made what kind of product is to be brought and how it should be priced, promoted and placed so that customer is attracted towards the product. Grace Kunz has defined it as the planning developing and presenting of product lines for identified target markets with regard to pricing, assorting, styling and timing. Identify the

customers, understand their need, buy those goods, categorise and place them in a style that appeals to visiting customer.

It is said a customer makes his final decision of buying or going for alternative when he visits the shop. If the “offer” at the counter pleases he may decide to buy, that is what is merchandising such ‘offer’ is a bundle of expectations that a customer expects to be delivered to him.

It is basically product itself that should be of customers liking. Along with this display of product, its price, discount, service and other features are taken as ‘offer’ that must appeal and attract a customer.

What you buy must be sold the offer or the package i.e., product, price, place and promotion must appeal the visitor, to ensure sale.

Merchandising is planning and control of merchandise inventory of the retail form in a manner which balances between expectation of target customer and strategy of the firm.

### **Merchandising has two broad objectives:**

1. Buy and store the inventory or product that is expected or needed by the people.
2. Achieve the objective of the business i.e., Growth, profit etc., that is possible when inventory is sold. It means store or buy that product that be sold is the basic philosophy of merchandising, which benefits both the customer and also the businessmen. That is customer is pleased as he gets product of his desire and retailer gets profit as merchandise is sold.

### **2. Types of Merchandise:**

#### **Merchandise can be broadly classified under following heads:**

**1. Staple:** These are necessities of life that are used everyday. E.g. – Food, Clothing, Stationery, Cosmetics, toiletries etc.

They have regular and stable demand. Fluctuation in demand supply and price is minimum.

**2. Fashion:** Consumption of these goods is dependent on current fashion. Demand lasts until its fashion. Depending on nature of goods, fashion may be for seasons or years. Retailer has to stocks the product until the fashion lasts. If the stock remains unsold as goods become out of fashion, he has to adopt marketing strategy like discount, ‘buy one get one offer’ to clear stock.

**3. Fads:** Goods that are in demand for a very short period of time. It can be said as fashion which lasts for a very short period of time. It is risky to store such goods in bulk quantity as there is no guarantee regarding duration of demand.

**4. Seasonal:** Goods that are demand in particular seasons. Based on weather features, we can classify seasons as Monsoon, Summer, Winter accordingly specific products like, Umbrella,

Sweaters, Cool Goggles, soft drinks, Ice creams etc., are demanded accordingly the product is to be stored. Similarly season of festivals, marriage have its own demand for sweets, Jewellery, Clothing, etc.

### **Merchandise Management:**

Merchandise management is planning and controlling of retailers inventories and investment in that. It ensures optimum investment and ensure adequate ROI keeping in objectives of organisation. David Gilbert has defined it as, Planning and implementation of the acquisition, handling and monitoring of merchandise categories for an identified retail organisation.

### **Merchandise management is concerned with:**

- (1) Merchandise planning what to buy.
- (2) Acquisition – from whom to buy – source of supply
- (3) Handling – Placing merchandise in store.
- (4) Monitoring the stock levels and inventory and merchandise movement.

### **Merchandise management is necessary to:**

- i. Identify segment of customer to be served and category of product to be served to them
- ii. Studying the demand, taste fashion that has impact on stock levels.

Based on that study make adequate planning as to what to buy and how to promote its sale.

Ensuring optimum investment in each category of product without allowing for either-

- (1) Shortage of stock that will harm sales and reduce, returns.
- (2) Excess of stock that may force a firm to undertake acts like discount, bargain sale that will have impact on profitability.

Merchandise being basic element of current asset a large amount of investment is tied up in that. It has to be ensured that such investment is not wasted (unsold stock) blocked (No adequate turn over) and it must ensure adequate ROI i.e., Return an Investment.

### **Principles of Merchandising:**

Merchandising is delivery of right product at right place and right time to the targeted customer. Successful operation of merchandising is dependent on following principles.

**1. Offer What Customer Wants:** Retailer must offer in his store what the customer wants or desires. He must select the segment of customer to whom he has to serve (like rich, middle class, Youngsters, kids, ladies) assemble the goods that they expect, assort and Offer them at a price, style and content etc., that is liked by them.

**2. Prepare Merchandise Plan:** Merchandiser has to finalise the merchandise plan. Such plan must be based on demands and specialty of each store and department. Micro details like types of products, brands, price category etc., have to be planned.

Such planning must be based on past records, consider the likely changes in fashion, consumption habits. Merchandise has to consult store manager in finalising merchandise plan. He has also to analyse financial implication of investment on merchandise to meet the profit targets.

**3. Selection of Sources of Supply:** It is said goods well bought are half sold. Merchandiser has to select vendors or suppliers who meet his requirements in terms price, quality, delivery and reliability. He has to search the list of suppliers available locally or at regional or international level depending on his need and select the supplies who meets his demands. Merchandiser has to negotiate with the vendor the terms of buying price, terms of delivery, payment base.

**4. Consistency and Change:** There should be consistency in merchandise assortment. Regular customers are habituated to particular lifestyle, products, price etc. Retailers should be capable of offering regularly as to what his customer's desire. Along with this he has to introduce an element of novelty, bringing the gradual change in product, style of operation etc. to match the changing trend and demand of his customers.

**5. Present Right Assortment:** Retailers has to present right assortments of merchandise, i.e., types of product, brand, price range, and other features that the regular customers expects. Products must be presented category wise offering convenience and comfort to the customer in selection of product.

**6. CRM:** Sale to a customer is not a once day affair or a single transaction. A customer who visits a store must repeatedly visit the store. Retailer has to develop relationship with the customers.

**This is possible when:**

- i. Retailer understands need of each particular customer. Pay personal attention to visiting customer.
- ii. Attend any problems faced by customer through after sale service.
- iii. Offer courteous service and make shopping a pleasing experience.

This is called CRM that is necessary to attract and retain customers.

**7. Customer Delight:** A successful retailer not just satisfies visiting customer by offering the product he wants, he surprises him with much more. Retailer should ensure customers delight through new products, offers, discounts, installment, returns and other facility something that is unique, which may please and delight a customer and make him to loyal be organisation.

**Functions (Task) of Merchandising**

The task of merchandising is to select the merchandise to be sold by the organisation. Buy it and ensure its replenishment, by adopting different sales or price strategies. The main function of merchandising is buying which may be centralized or decentralised.

In case of centralized buying, merchandise required for all the stores is purchased by Head office. In case decentralized buying each individual stores will buy its merchandise on its own subject to approval by Head office. Organisations like Specialty Stores, Discount houses Mail order business will practice centralized system.

A Department store will have decentralized system. Factors like bulk purchase, discount facility, economy in transportation warehousing facilities determine the purchase policy.

Merchandiser plays an important role in the success of any retail organization. It is he who selects the goods to be sold. If his selection is right, retail outlets will not have difficulty in selling the goods. Firm may have team of merchandisers, either a merchandiser for each store or for each line of product depending on size and resources of organisation.

**Merchandiser and merchandise departments have following functions:**

**1. Planning:** Merchandiser has to prepare purchase budget. Purchase of merchandise is based on estimated sales, objectives of organisation and expected returns. Merchandise plan is prepared for the entire organization i.e., store wise, department and also product wise. Plan also determines new products to be added and old products to be deleted based on prospects of sales.

**2. Directing:** Firm may have specialized buyers who are expert in finding suppliers and negotiate with them. Merchandise department gives guidelines and directions to buying department regarding quantity and budget of purchase. They may also direct the terms of purchase. As per the broad guidelines and directions, buyers make timely purchase of merchandise to match the needs of organisation.

**3. Co-Ordinating:** Merchandiser undertakes balancing, timing and synchronizing the activities of buying and selling. He takes periodic stock report from each stores, monitors stock level, and determines purchases to be made. He also co-ordinates buying efforts of different buyers of the organisation.

**4. Controlling:** He controls entire operations of merchandising i.e., (a) buying (b) issue of merchandise to stores, (c) visual display (d) pricing of sale, (e) sales promotion activities. He periodically takes stock reports determine financial implication of investment on merchandise. Ascertain return on investment store wise, category wise and product wise to determine which product contributing to the profits of the organisation.

Cost cutting measures are adopted to increase profitable lines. Sections and products that have no future may be eliminated. He controls the entire functioning to ensure that merchandising operations are profitable.

**The task of merchandising is broadly classified into:**

**(a) Planners:** A planner acts as link between stores and buyer. He prepares merchandise plan and gives direction to purchase issue to stores. Whenever there is demand. He undertakes stock taking and determines merchandise stock levels based on objectives and profitability.

**(b) Buyers:** A buyers acts as link between vendors (suppliers of merchandise) and the organisation. He functions under supervision and control of merchandise manager. Following are his roles and responsibilities.

**Function of Buyers:**

**A merchandise buyer performs following activities:**

1. Planning and selecting the merchandise as per the orders and direction of the organisation.
2. Ordering and procuring the merchandise on behalf of entire organisation.
3. Selection of vendors, development and management of vendors list.
4. Negotiation with vendors like price, discount, delivery and other terms relating to merchandise buying.
5. Monitoring the inventory levels at stores and delivering the merchandise.
6. Ensure that the stores have adequate stock levels.
7. Inform the merchandise manager regarding new trends, fashions, technology in the area of merchandise.

**A merchandise buyer is described as:**

**1. Change Agent:** As he influences buying habits and behaviour of customers. Customer will buy the products that are bought by in buyer. He brings in novelty by introducing new products, in the stores and there by brings in change in consumption habits of customers.

**2. Gatekeeper:** He procures goods from suppliers and delivers them to stores for sale, which are ultimately sold the customers.

**Merchandising Techniques**

**1. Vertical Merchandising**

As a technique, vertical merchandising is fairly easy to explain. It's the grouping together of merchandise in a vertical column or display in such a way as to get your customers to buy more products.

How does this get your customers to buy more? Your customers tend to focus on those products that are at eye-level. Thus, in displaying your merchandise in a vertical manner, you're

allowing your customers to stay in one position while they use their eyes to follow your display of items, from top to bottom.

The result is an easier shopping experience for them since they'll see more of your inventory. They'll also be able to compare your product offerings and prices.

If you do plan on making use of this particular technique, just remember to consider who your customers are. If they're adults, ensure that your popular products are at eye level. Likewise, if you know they're likely to bring their children with them, place products that appeal to them near the bottom of the shelf.

**Advantages:**

1. Improves the appearance and organisation of your store.
2. Presented consistently in vertical columns, a large selection of products will appear organised, making it easier to shop your store.
3. All brands at eye level will receive equal visibility.

**Disadvantages:**

1. It can result in over facing SKU's that don't require a complete vertical allocation.
2. Your brand impact is somewhat diluted.
3. It makes it harder to display high profit lines exclusively at eye level.

**2. Horizontal Merchandising**

In going the route of horizontal merchandising - placing your products in a blocked horizontal manner - you're essentially ensuring that all your products are at eye level.

That's the good part.

The downside is that your customers will need to move from side to side to see all your products. Since your customers prefer to stand still and scan your shelf with their eyes, this particular technique can make it difficult to shop your store. That doesn't mean you shouldn't make use of this technique.

If you do decide to make use of this technique, just make sure that the first product they see is enticing enough to get them to move down your aisle so they can see your other products.

**Advantages:**

1. It makes it easier to present more profitable items at or near your customer's eye level.
2. If done properly, you can entice your customers to walk through your entire display, exposing them to more products.

**Disadvantages:**

1. Your poorer performing brands may not receive enough exposure and could perform poorly as a result.

2. You will not be able to merchandise by price point.
3. It is difficult to upsell your customers since you can't display bundles or add-on items.

### **3. Cross Merchandising**

Defined as the practice of displaying complementary products from different categories together, your cross merchandising technique is great in generating additional revenue for your store.

How? Since most of your customers are looking for convenience when shopping, you're helping them by pairing up products that are indirectly related to each other.

For example, if you sell battery-operated toys, you should consider a display of batteries next to them. Not only are you saving your customers time, but you're also given them a better shopping experience. Another example is if you're a food retailer, you can place your spreads near to your in-store bakery.

If you do decide to make use of this merchandising technique, just make sure that you always have your customer in mind. Any items you choose to cross merchandise need to offer a solution to your customer.

#### **Advantages:**

1. Offers a solution instead of products.
2. It makes it easier for your customers to shop your store.
3. It appeals to your customer's desire to save time.
4. Your products are organised in a way that your customers use them.

#### **Disadvantages:**

1. There could be possible space limitations.
2. Your customers won't shop your entire store.
3. Your store could be seen as trying to sell off higher-priced items

### **4. Colour Block Merchandising**

When it comes to figuring out how best to draw your customers into your shop and keep them in store, you need to consider making use of colour block merchandising.

At its core, this merchandising technique involves the use of colour to display your products and is usually done in a vertical manner known as colour ribboning. This can be done both in store and in your window displays.

For example, if you're looking to attract attention to your store, a window display filled with bright colours is a good bet. Once in your store, you can follow that up by including a similar display.

Mind you, just be careful that in picking a certain colour, you aren't choosing the same as everyone else, which can result in customer's not even seeing your store. In that case, a darker colour could work just as well.

An added bonus is that in using colours, you can also create an emotional and personal connection with your customers. That is especially helpful when you know who your customers are so you know which colours will appeal to them most.

If you're interested in learning how to make use of colour block merchandising in your store, this article we wrote about it is a good starting point.

### **Advantages**

1. Use a product's colour in a display to attract your customer's attention.
2. It encourages multiple purchases
3. Your customers will see more of your product selection at a glance.

### **Disadvantages:**

1. It can be difficult to create a desired effect with certain products.
2. It can make shopping your store slower than usual.

### **What is assortment planning?**

Before understanding the term, you may have a question in mind – “what is an assortment?” The word is defined as a collection of products that a company offers.

Assortment planning in retail is the process of selecting the products that a retailer wants to sell during a particular period to maximize profitability. In other words, it means that retailers decide what merchandise they should buy and market to their customers. It is all about having the right goods in the right place at the right time.

Customers' satisfaction highly depends on the variety of products that retailers provide. Your customers might get disappointed if the products they look for are out of stock or if the color they prefer is not available. As a result, they will go to your competitor's store instead.

It is important to note that putting all your products in your store is impossible since the inventory cost will go up. Thus, you should optimize assortment and make retail strategy planning a priority in order to save costs and achieve profit maximization.

### **What does the process look like?**

You may wonder where to start and how the assortment planning process works. Have a look at the following steps.

### **Research and build a plan**

Before building an assortment strategy or plan, you have to first analyze each branch and store's historical sales performance, followed by identifying the latest trends. You are going to study the items required, such as the cost, average selling price, and the lifespan of a batch of products, to name a few. Retailers can develop a plan according to the data and the information cited.

### **Store clustering**

Store clustering is the process of grouping stores with similar attributes, including location, sales, store size, customer demographics, product features, etc. By doing so, you can apply a similar assortment plan to stores in the same group. More importantly, this step allows you to localize product assortments and promotions to meet the customers' demand in various regions.

### **Decide the breadth and depth of assortments**

Retailers have to decide the number of items being sold in each cluster. Product breadth refers to the number of categories, while depth is various styles and items in a particular category. It is important to strike a balance between breadth and depth to attract the most customers.

### **Create a visual merchandising plan**

Visual merchandising is to present products in the most appealing way. This forces you to think about what products are placed in the center of the store and what options are located near the cashier. Bear in mind that the purpose of carrying out visual merchandising is to motivate your customers to consume by highlighting each product's benefits. Again, you should localize your plan for different stores and work on it according to past data.

### **Double-check and execute the plan**

After you finished the above steps, you have to ensure everything is on track. You might want to confirm the colors, styles, quantities are delivering to the right stores, and the plan is aligned with the financial budget. When all the examinations are done, you're good to go.

### **How can you benefit from assortment planning?**

Assortment planning in retail brings a lot of advantages to your business. We will look into some of the greatest benefits here.

### **Retain your loyal customers**

Instead of guessing, you are making evaluations based on each store's past sales performance and formulating a plan accordingly. In this way, your loyal customers will find what they want in your store since they might have bought similar items last year and assume that you are providing them this year.

### **Control inventory spending**

When your retail strategy planning is carefully done, you will have an accurate estimation of the assortment needed. Retailers will thus spend money on inventory according to the plan and will not overspend. As a result, we will reduce unnecessary inventory costs and spending. You can avoid misallocation of goods and discard redundant inventory since everything is well planned.

### **Stand out from competitors**

Having a good assortment strategy enables you to know what the hottest products are and put them on your shelves. If you can be the fastest to bring in the latest trend, you can beat your competitors and optimize the foot traffic.

### **How can you improve retail assortment planning?**

To ensure that customers are being targeted, you have to understand what they want in order to satisfy their needs. Here are some tips for you to improve your assortment management.

#### **Have a full understanding of your target customers**

It is crucial to understand what motivates your customers to spend and why your customers choose to visit your store. Imagine you are the owner of a grocery store; you are going to include a higher product breadth with low depth instead of the other way round since your target customers might want to find a wide range of products. On the other hand, if you are the owner of fast fashion brands, like Zara or Forever 21, that offer trending styles, you will put a large variety of affordable products, while the assortment plan should be updated frequently.

#### **Work on cross-merchandising**

Cross merchandising is the technique of putting complementary goods together to increase sales. When you have decided to sell sandals in a specific store, you may consider displaying sunglasses next to them. Customers are more likely to purchase the sunglasses when they are next to each other since these two items are what your customers need for the summertime.

#### **Spend more time on localization**

Localization is the process of adapting your products to cater to the needs of customers in various clusters. This concept matters a lot since your customers have different preferences, needs, and habits. For example, you have a fashion brand; some store locations possibly have an earlier winter than others. During the seasonal transition period, you will need to increase the product variety in particular stores, including summer and fall clothes, while keeping the product breadth normal for other clusters. Only when customers' demands are met, will they come back to your store, as they associate your store with great buying experiences.

### **Find an assortment planning tool**

There are more and more business software companies that offer merchandise assortment tools nowadays. These tools allow you to respond quickly to changes in trends and consumer behavior. Retailers can free up time, costs, and effort since these systems are going to manage most of the daunting work for you, e.g. predict future demand, inventory management, store planning, data analysis, and so on. CBX Software has lots of experience in helping to streamline your strategic retail planning process and expand assortments. You are always welcome to schedule a demo to better understand how it works.

### **Identify market trends using different platforms**

We have been talking a lot about spotting trends in this article, but how can you do it? Apart from using tools like Google Analytics and Google Ads, you can simply study blog posts, trend reports, Google trends, etc. You may also find the most popular items in each product category on large scale eCommerce platforms, such as Amazon, Shopify, eBay, and so forth.

### **Get ready and start your next assortment plan**

Assortment planning plays a critical role in satisfying customer demand and making key business decisions. It helps to understand what consumers expect and ensure that you are doing the right thing. I am hoping that what we have covered is giving you more ideas about merchandise planning in retail. Our Supplier Management Software allows for you to scale your product ranges and lines through precise product specs, creating seamless collaboration with your vendor partners. It is never too late to work on an assortment plan. Always refer to these tips for improving your strategy and take everything slow if it is your first time. Start your plan right away!

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